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May 1, 1997

Mr. William F. Caton
Secretary
Federal Communications Commission
Room 222
1919 M Street NW
Washington, D.C. 20554

MAY 2 1997

Re: WT Docket No. 97-82, PP Docket No. 93-253: Part 1 Wireless Rules

Dear Mr. Caton:

In a meeting with the FCC staff on April 24, MCI recommended that the FCC change the license payment terms for C Block licensees. (MCI letter to William Caton, April 25, 1997.) The staff suggested that MCI more fully develop that proposal on the record of this proceeding. This letter responds to that suggestion. We propose changes in three significant areas: (1) financing terms; (2) ownership and attribution; and (3) procedure. MCI believes that, if the Commission makes these changes, thereby jumpstarting C-Block financing, most of the licensees in jeopardy will be able to overcome their short-term financing problems.

Recently, MCI has had discussions with licensees, vendors, and numerous representatives of the financial markets. The financial outlook for wireless companies has changed dramatically since the FCC began issuing C Block licenses. New entrepreneurial licensees are facing the following hurdles:

- Public, private and vendor financing sources have withered;
- Wireless stocks -- both cellular and PCS -- are at 52-week (if not multi-year) lows, with equity offerings for new wireless companies not feasible at this time;
- Last month's interest rate increase closed the door of the high-yield market for new wireless entrants; and
- C Block prices have fueled growing skepticism over Entrepreneurs' prospects of being competitive with better-funded, lower cost, branded and established rivals.

Financing Terms -- While each C Block licensee faces unique circumstances, and some have sufficient resources to move forward, we believe that many C Block licensees will soon face financial crises if the FCC does not act swiftly and decisively to change the license payment terms. Success in the new wireless marketplace will depend on brand strength, merchandising and the ability to integrate products and services. This will require capital that, without changes in the payment terms, will either simply not be available to Entrepreneurs or go toward debt

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service for licenses.

Many incumbent cellular companies, who paid nothing for their spectrum, have established networks, well-recognized brands and the ability to provide bundled services. Similarly, many PCS companies now turning systems up paid considerably less, have established brands, and will have a year or more head start over the Entrepreneurs. Further, they have already taken advantage of sources of funds that are now unavailable to C-Block licensees because the financial markets were much more accessible to them when they needed financing.

The Entrepreneurs can be a strong and vital competitive force in the emerging wireless market, if they can begin operations and develop a cash-producing business. This is nearly impossible if they must spend most of the money they raise on debt service and license payments, instead of building revenue-producing networks with competitive footprints and aggressive marketing.

Success (or failure) of the financing efforts of the Entrepreneurs will materially affect the competitive landscape of the telecommunications industry as a whole. As noted in a recent report of Donaldson, Lufkin & Jenrette,

The success of financing efforts of the C-Block winners is thus the most important competitive question currently. It not only affects the number of competitors likely and thus the market share results of each of them, but the very nature of the competition.

The Wireless Communications Industry, Spring 1997, p. 4

Because of the market conditions described above, further financing in amounts necessary to fund substantial near-term infrastructure roll-out may not be available. With previously available avenues now foreclosed, many believe that the FCC must act to ease the financing terms for C-Block licensees. Several prospective strategic investors, vendors and providers, including MCI, are waiting to see what the FCC will do to restructure Entrepreneurs' debt before making critical decisions on financing and purchase commitments.

Chart 1 illustrates a means for the FCC to restructure the debt of the C-Block licensees that defers payments to the Government in the early years and ramps up principal payments through the last four years of the license term without changing the bid/purchase price. Interest to the Government would accrue on unpaid amounts, including deferred interest, at the T-bill rate.

This proposal would free Entrepreneurs from having to raise scarce high-interest-rate debt to service license debt in the early years. Instead, it will allow them to utilize this capital to invest in build-out, operations and marketing. The proposal also brings the C-Block into a closer proximity to the other broadband MTA licensees (A and B Blocks) on a net present value basis, making them a much more attractive play for investors. This is illustrated in attached Chart 2. The tiered debt repayment structure will allow Entrepreneurs to repay the debt plus interest on the debt as their cash flows develop over the ten-year license term.

In easing financial terms, the FCC will want some assurance that licensees build out their systems quickly. MCI proposes that policies requiring strict adherence to FCC build-out obligations remain intact to ensure that the relief granted results in rapid deployment of PCS systems.

Ownership and Attribution Rules -- Another critical change that will attract new investors and financing relates to the ownership and attribution rules. Today, each non-attributable investor is limited to 25 percent equity. The FCC could allow a single investor to have half of the total non-control equity, or 37.5 percent. This would allow additional infusions of capital to these entities from strategic investors without changing the control exercised by the Control Group. The FCC would not need to change the existing requirement that the Control Group have 50.1 percent of the vote and de facto control.

Procedure -- MCI believes that the changes proposed must be applicable or at least available to the entire C Block. The Commission can accomplish this either by granting waivers to individual C Block licensees along the lines of the proposed changes, based on the individual circumstances of each licensee, or by a new rulemaking.

If the FCC were to proceed by a traditional rulemaking, it should expect the established wireless players to act on their economic interests by drawing out the process as much as possible, further increasing the costs of the Entrepreneurs, and further delaying meaningful wireless competition. Even more significantly, however, such delays could well thwart Entrepreneurial competition entirely, by so clouding the Entrepreneurs' prospects as to virtually extinguish all financing options.

MCI strongly recommends that the Commission proceed by individual waivers, which would allow the Commission to take the unique circumstances of each licensee into account. In those waivers, the Commission would recognize that the changes are consistent with the underlying purposes of the C Block rules. They would ensure that the Control Group of each licensee consist of those eligible for C Block designation, and at the same time ensure that realistic mechanisms exist which will permit such entrepreneurial groups to obtain the financing necessary to both pay for the licenses and to build the systems. Only if these systems are built -- in the near term with no quality or coverage sacrifice for lack of financial resources -- will they bring to the wireless marketplace the entrepreneurial competitiveness which was the Commission's overall goal in the PCS allocations.

Swift action is necessary if the Commission is to preserve its goals of Entrepreneurial wireless competition, and the waiver process is best tailored to achieve those goals.

Please add this letter and the enclosed copy to the record of this proceeding.

Sincerely,

A handwritten signature in cursive script, reading "Leonard S. Sawicki". The signature is written in dark ink and is positioned above the printed name.

Leonard S. Sawicki

Attachments

cc: Ms. Allen
Ms. Chorney
Mr. Cohen
Mr. Fowlkes
Ms. Ham
Mr. Kwerel
Ms. Lien
Ms. Melson
Ms. Smith
Ms. Speight
Mr. Phythyon
Mr. Tenhula
Ms. Zoslov

CHART 1

5-Year Payment-in-kind "PIK" \$ Outflows
Per Pop Illustration - \$40 Face Value

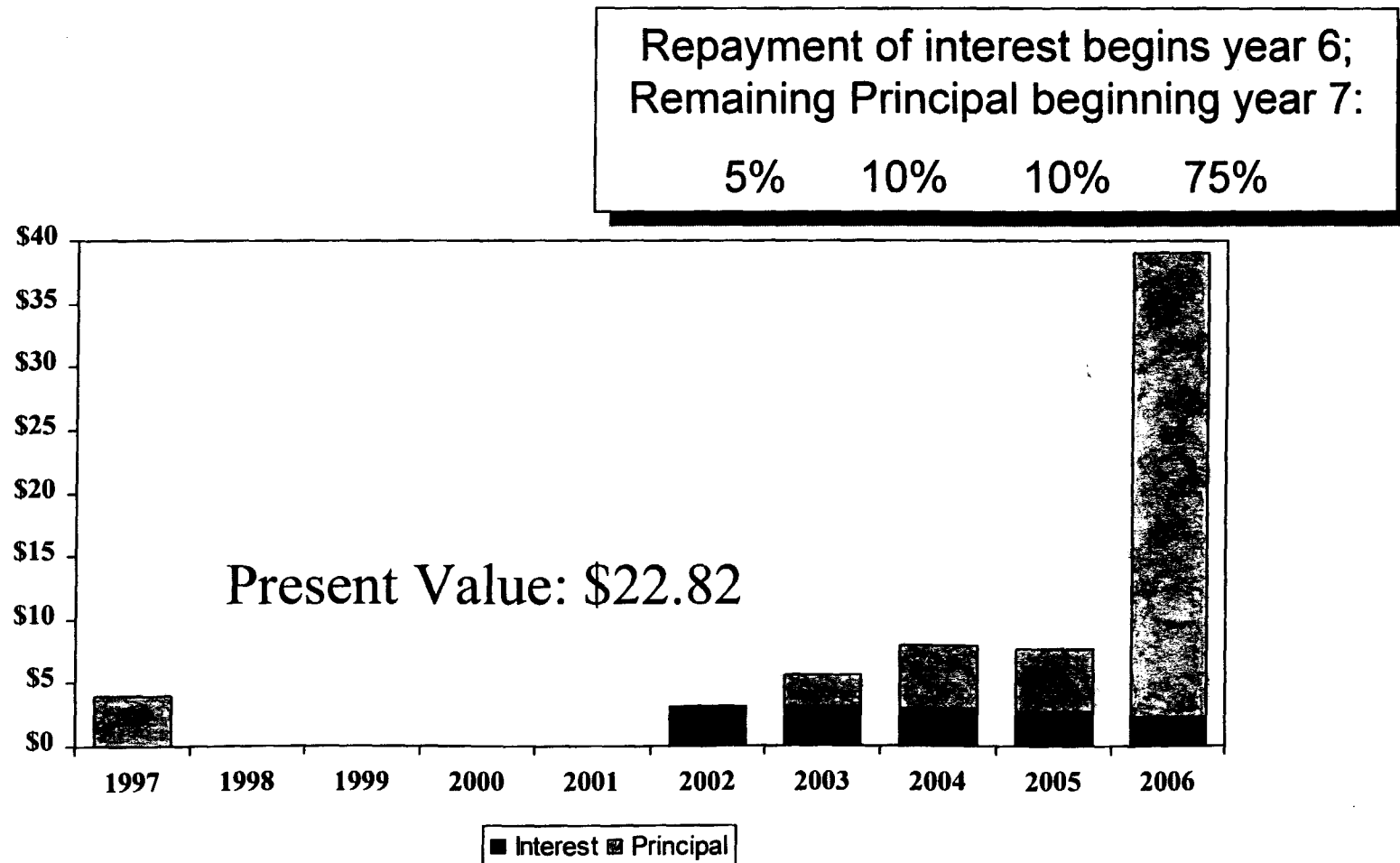


Chart 2

Comparison: Restructured License Debt-- Five Year PIK with Tiered Balloon Structure at 5%/10%/10%/75% in Out-Years

	AT&T	Sprint	PrimeCo	PacBell MS	Ameritech
Price per POP A/B Block*	\$15.73	\$14.00	\$19.36	\$22.41	\$19.85
	NextWave	Pocket	AerForce	General Wireless	PCS 2000
Net Price per POP C-Block*	\$45.80	\$42.53	\$29.15	\$59.05	\$38.84
Price per POP – Including Present Value of Financing	\$26.12	\$24.26	\$16.63	\$33.68	\$22.15

**Disc Rate @ 14%
Interest @ 6.5%**

This Structure Puts the C-Block in a much closer proximity to the A/B Players on an NPV basis related to licenses, while freeing up substantial cash to invest in operations and marketing in the early years.

Note: MCI is not speaking on behalf of these individual companies nor have they supplied any of the data, which was obtained from public sources. These numbers have been developed only to depict the effect of MCI's proposal.

* Source: Goldman Sachs Global Research